

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** October 7, 2016  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 160169-WU  
Company Name: Pine Harbour Water Utilities, LLC  
Company Code: WU921  
Audit Purpose: B1c - Certificate Transfer  
Audit Control No.: 16-221-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



## Public Service Commission

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

### Auditor's Report

Pine Harbour Water Utilities, LLC/Pine Harbour Waterworks, Inc.  
Transfer of Certificate

As of June 29, 2016

Docket No. 160169-WU  
Audit Control No. 16-221-1-1  
September 20, 2016

A handwritten signature in black ink, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown  
Audit Manager

A handwritten signature in blue ink, reading "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet objectives set forth by the Division of Accounting and Finance in its audit service request dated July 28, 2016. We have applied these procedures to the attached schedules prepared by audit staff in support of Pine Harbour Water Utilities, LLC/Pine Harbour Waterworks, Inc. request for a Transfer of Certificate in Docket No. 160169-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

## Objectives and Procedures

### **Background**

#### Definitions

Buyer/Utility refers to Pine Harbour Waterworks, Inc.

Seller refers to Pine Harbour Water Utilities, LLC

NARUC refers to the National Association of Regulatory Utility Commissioners.

UOSA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115-Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

#### Utility Information

Pine Harbour Water Utilities, LLC is a Class "C" Utility that provides water services to approximately 64 customers in Lake County, as noted in the 2015 annual report. The Original Certificate for No. 450-W was granted in Order No. 15285, issued on October 22, 1985, in Docket No. 850417-WU.

On June 4, 1990, an application was filed with this Commission seeking approval of the transfer of Certificate No. 450-W from Earl W. Stockwell (Pine Harbour) to Pine Harbour Water Utilities, owned by Jim C. Branham. This was granted in Order No. 24273, issued on March 21, 1991, in Docket No. 900525-WU. Rate base was established per this order.

Upon Mr. Branham's death on April 14, 2007, the utility became a part of his estate. On May 11, 2007, the Circuit Court for Lake County, Florida, appointed Ms. Sandra Wesson as personal representative of the Estate of Jim C. Branham. During the probate of Mr. Branham's estate, the Court granted Ms. Wesson authority to manage and operate the utility.

On May 9, 2008, Pine Harbour Water Utilities and Pine Harbour Water Utilities, LLC (PHWU), filed a joint application for transfer of the water facilities and certificate to PHWU. On May 28, 2008, an application was filed for approval of the transfer of the facilities and Certificate No. 450-W from Pine Harbour to PHWU, which was granted in Order No. PSC-08-0645-FOF-WU, issued on October 6, 2008, in Docket No. 080269-WU.

Pine Harbour Waterworks, Inc. purchased Pine Harbour Water Utilities, LLC, for \$34,000 and the closing occurred on June 29, 2016.

### **General**

#### Utility Books and Records

**Objectives:** The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

**Procedures:** The audit staff reviewed the utility's accounting system and found it to be not in compliance with the NARUC USOA. Finding 1 discusses utility books and records.

## **Net Book Value**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for UPIS as of April 12, 1990, established in Docket No. 900525-WU, Order No. 24273, with the Seller's books and records by primary account. We traced asset additions to supporting documentation. We ensured retirements were made when a capital item was removed or replaced. We calculated the ending balance of UPIS as of June 29, 2016 to be \$86,561. Finding 2 discusses UPIS.

### Land & Land Rights

**Objectives:** The objectives were to determine whether the utility land is: 1) Recorded at original costs, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for land as of April 12, 1990, established in Docket No. 900525-WU, Order No. 24273, with the Seller's books and records. We traced to supporting documentation and verified that the land belongs to the Utility and that there were no changes since rate base was last established per Order No. 24273. We calculated the ending balance of land as of June 29, 2016 to be \$5,000. No exceptions were noted.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for accumulated depreciation as of April 12, 1990, established in Docket No. 900525-WU, Order No. 24273, with the Seller's books and records by primary account. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We calculated the ending balance of accumulated depreciation as of June 29, 2016 to be \$67,863. Finding 3 discusses accumulated depreciation.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when an

contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for CIAC as of April 12, 1990, established in Docket No. 900525-WU, Order No. 24273, with the Seller's books and records. We reviewed the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the cash receipts and the approved tariff. We calculated the ending balance of CIAC as of June 29, 2016 to be \$56,883. Finding 4 discusses CIAC.

#### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for accumulated amortization of CIAC as of April 12, 1990, established in Docket No. 900525-WU, Order No. 24273, with the Seller's books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We calculated the ending balance of accumulated amortization of CIAC as of June 29, 2016 to be \$56,883. Finding 4 discusses accumulated amortization of CIAC.

#### Acquisition Adjustment

**Objectives:** The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

**Procedures:** We determined that the Net Book Value for this Utility at the time of transfer is less than the purchase price, which would reflect a positive acquisition adjustment. Pursuant to Rule 25-30.0371(2) – Acquisition Adjustments, F.A.C., a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The Utility is not requesting a positive acquisition adjustment. Therefore, we did not calculate an acquisition adjustment.

#### **Other**

##### Rates and Charges

**Objectives:** The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

**Procedures:** We obtained and tested the Utility's billing register for July 2016. We recalculated a sample of customers' bills using the approved tariffs. No exceptions were noted.

##### Customer Deposits

**Objectives:** The objective was to determine the disposition of Pine Harbour Water Utilities, LLC's customer deposit.

**Procedures:** Audit staff requested a listing of customer deposits, if any, included in the sale. We determined that there were no customer deposits included in the sale and that the seller did not have a tariff for customer deposits. No further work was performed.



## Audit Findings

### **Finding 1: Books and Records**

**Audit Analysis:** Pine Harbor Water Utilities, LLC's books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA)

NARUC, Class C, Accounting Instruction, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USoA.

The audit staff noted that Pine Harbour Water Utilities, LLC did not separate UPIS and accumulated depreciation by primary account in it's general ledger. The Utility did however, beginning in the 1993 annual report for UPIS and the 1994 annual report for accumulated depreciation separate the amounts into primary accounts. The Utility also did not record anything on its 1991 and 1992 annual reports. They also did not record CIAC and accumulated amortization of CIAC on its general ledger. In addition, anything prior to 2013, was not recorded on the general ledger.

**Finding 2: Utility Plant in Service**

**Audit Analysis:** The Seller’s general ledger and Depreciation Schedule included in the 2015 tax return reported the UPIS balance to be \$130,485. The UPIS balance as of April 12, 1990, per Commission Order No. 24273 was \$85,864.

We determined that the UPIS balance should be \$86,561 as of June 29, 2016, based on the Commission approved balances for Order No. 24273.

Order No. 24273 reflected only a total beginning balance for UPIS. It was not broken out by primary account. We reviewed the 1993 annual report, to determine the beginning balance amount for each account. We could not use the 1991 or 1992 annual reports, because the Utility did not provide any balances on the reports.

We were unable to verify additions noted in the annual report for 1993, 1996, and 1997, in the amounts of \$3,417, \$82, and \$164, respectively. In addition, the Utility recorded the UPIS beginning balance at January 1, 2013 in the general ledger in the amount of \$127,697. We were unable to reconcile the \$127,697 to the audited balance and supporting documentation.

We determined utility UPIS to be overstated by \$43,924, as shown in Table 2-1.

**Table 2-1**

Description	Acct.	Utility Balance as of 06/29/2016	Adjustment	Audit Staff's Balance as of 06/29/2016
Organization	301	\$ 500	\$ -	\$ 500
Land	303	\$ 5,000	\$ -	\$ 5,000
Structures & Improvements	304	\$ 30,794	\$ (27,925)	\$ 2,869
Wells & Springs	307	\$ 19,763	\$ (12,000)	\$ 7,763
Supply Mains	309	\$ 8,976	\$ (2,091)	\$ 6,885
Pumping Equip.	311	\$ 16,314	\$ -	\$ 16,314
Water Treatment Equip.	320	\$ 350	\$ -	\$ 350
Distribution Reservoirs	330	\$ 15,811	\$ -	\$ 15,811
Transmission and Distribution Mains	331	\$ 22,468	\$ -	\$ 22,468
Services	333	\$ 5,692	\$ -	\$ 5,692
Meters and Meter Install.	334	\$ 5,270	\$ (1,908)	\$ 3,362
Hydrants	335	\$ 4,547	\$ -	\$ 4,547
Water Plant		\$ 135,485	\$ (43,924)	\$ 91,561
Less: Land	303	\$ 5,000	\$ -	\$ 5,000
Total Plant Less Land		\$ 130,485	\$ (43,924)	\$ 86,561

**Effect on the General Ledger:** The Utility should determine the effect on the ledger.

**Effect on the Filing:** The UPIS balance should be decreased by \$43,924.

### Finding 3: Accumulated Depreciation

**Audit Analysis:** The Seller's general ledger and Depreciation Schedule included in the 2015 tax return calculated the accumulated depreciation balance to be \$104,887. The accumulated depreciation balance as of April 12, 1990, per Commission Order No. 24273 was \$9,297. We calculated the accumulated depreciation balance to be \$67,863 as of June 29, 2016, based on the Commission approved balances for Order No. 24273, using Commission approved rates.

Order No. 24273 reflected only a total beginning balance for accumulated depreciation. It was not broken out by primary account. We reviewed the 1994 annual report, to determine the beginning balance amount for each account. The 1994 annual report total amount did not equal the amount per Order No. 24273. We could not use the 1991, 1992, or 1993 annual reports, because the Utility did not provide any balances on the reports. To establish beginning balances we used the ratio method. We determined the ratio of plant by account to total plant and then used the ratio to determine the beginning balances for each account.

The differences noted between the Utility and audit staff are due to the insufficient support for plant items noted in the annual report and the general ledger.

We determined utility accumulated depreciation to be overstated by \$37,024, as shown in Table 3-1.

**Table 3-1**

Description	Acct. No.	Balance as per the Utility 06/29/2016	Adjustment	Balance as per Audit 06/29/2016
Organization	301	\$ 265	\$ 116	\$ 381
Structures and Improvements	304	\$ 6,287	\$ (5,703)	\$ 584
Wells and Springs	307	\$ 19,762	\$ (13,149)	\$ 6,613
Supply Mains	309	\$ 8,122	\$ (5,432)	\$ 2,690
Pumping Equipment	311	\$ 16,314	\$ -	\$ 16,314
Water Treatment Equipment	320	\$ 350	\$ -	\$ 350
Distribution Reservoirs and Standpipes	330	\$ 15,811	\$ (4,483)	\$ 11,328
Transmission and Distribution Mains	331	\$ 22,467	\$ (4,563)	\$ 17,904
Services	333	\$ 5,692	\$ (821)	\$ 4,871
Meters and Meter Installations	334	\$ 5,270	\$ (1,908)	\$ 3,362
Hydrants	335	\$ 4,547	\$ (1,081)	\$ 3,466
Total		\$ 104,887	\$ (37,024)	\$ 67,863

**Effect on the General Ledger:** The Utility should determine the effect on the ledger.

**Effect on the Filing:** The accumulated depreciation balance should be decreased by \$37,024.

**Finding 4: Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC**

**Audit Analysis:** The Seller’s general ledger determined the CIAC balance to be \$0. Audit staff determined that the CIAC balance should be \$56,883 as of June 29, 2016, based on the Commission approved balances for Order No. 24273. Audit staff inquired about the exclusion of CIAC in the general ledger, but the Seller was unable to determine what had occurred.

The Seller’s general ledger determined the accumulated amortization balance to be \$0. Audit staff determined that the accumulated amortization of CIAC balance should be \$56,883 as of June 29, 2016, based on the Commission approved balances for Order No. 24273. Audit staff inquired about the exclusion of accumulated amortization of CIAC in the general ledger, but the Seller was unable to determine what had occurred.

CIAC is understated by \$56,883 and accumulated amortization of CIAC is understated by \$56,883, as shown in Table 4-1.

**Table 4-1**

Description	Acct.	Utility Balance as of 06/29/2016	Adjustment	Audit Staff's Balance as of 06/29/2016
Contributions in Aid of Construction	271	\$ -	\$ (56,883)	\$ (56,883)
Accumulated Amortization of CIAC	272	\$ -	\$ (56,883)	\$ (56,883)

**Effect on the General Ledger:** The Utility should determine the effect on the ledger.

**Effect on the Filing:** The CIAC balance should be increased by \$56,883. The accumulated amortization of CIAC should be increased to \$56,883.

Exhibits

**Exhibit 1: Net Book Value - Water**

<b>PINE HARBOUR WATERWORKS, INC.</b>				
<b>DOCKET NO. 160169-WU; ACN 16-221-1-1</b>				
<b>SCHEDULE OF NET BOOK VALUE</b>				
<b>AS OF JUNE 29, 2016</b>				
Description	Balance per Utility 06/29/16	Audit Adjustments	Audit Finding	Balance per Audit 06/29/16
Utility Plant in Service	\$ 130,485	\$ (43,924)	2	\$ 86,561
Land	\$ 5,000	-		5,000
Accumulated Depreciation	\$ (104,887)	37,024	3	(67,863)
Contributions in Aid of Construction	\$ -	(56,883)	4	(56,883)
Accumulated Amortization of CIAC	\$ -	56,883	4	56,883
<b>NET BOOK VALUE</b>	<b>\$ 30,598</b>	<b>\$ (6,900)</b>		<b>\$ 23,698</b>